

A World of Debt: It is no surprise to readers of these pages that we have a debt, spending, deficit and growth problem in the United States today. What you may not know, however, is that the rest of the developed world is suffering from the same malaise, albeit to different degrees. And, the causes of said malaise are the same the world over, again with variations only in degree. But, what is really disturbing is that governments around the world seem to be implementing exactly the same "solution" for the debt, spending, deficit and growth problems that abound everywhere. It's disturbing because this "solution" will not work - at least it won't work without potentially severe side effects that may make the medicine as bad or even worse than the disease.

Allow me to explain.

The U.S., Japan, the U.K. and continental Europe are all currently either in recession or experiencing very slow growth. All have massive, if not record, budget deficits, and all have record debt to GDP ratios. That means that the debt issued by the respective governments is a greater share of their economies than ever before. In fact, the debt issued by governments around the world is now nearly 3 times greater, as a percent of the world economy, than it was in 1970. That means that the last 40 years have seen governments of all the developed countries running deficit after deficit and borrowing the difference.

The debts, deficits and spending in all of these countries are largely being driven by the same two costs: government-provided medical care and pension costs. These costs have skyrocketed as a percentage of revenue because of two things: growth is down and people in the established economies are having fewer children to pay for the costs of an aging and longer-living population. It is fascinating that every developed economy in the world has followed the same pattern since World War II. At first, these benefits were paid for by thriving post-WW II economies with growing populations of younger workers whose taxes paid for the benefits of older persons. But since then, governments have steadily expanded the benefits offered to the population, people have lived longer and collected those benefits for more years than originally planned, and declining birth rates have resulted in fewer young people to pay for benefits provided to older ones.

The debt and deficit situation in the U.S. is better than that of much of the developed world because a higher birthrate, more immigration and less generous benefits have allowed the math to work a little more in our favor. For example, although our debt to GDP ratio is now about 100%, the same ratio in Japan is 235%. Japan is in such a pickle because their birth rate

(actually known as a fertility rate) is 1.39 babies per woman. The U.S., in contrast, is 2.06. The population in the U.S. is rising because we have a stable fertility rate and some immigration. The population in Japan is falling because of a fertility rate that will not replace the current population and very little immigration. Add to that more generous government benefits and little economic growth for decades and you have a big problem.

Obviously, these deficits could be erased through increased taxes. And, governments around the world have been raising tax rates for decades. But, the tax increases have not kept pace with the increased benefits and declining younger populations. I have discussed in these pages before that it is very easy for a politician in the U.S. to offer people free pensions or health care and promise that someone else will pay for it. But, once you run out of other people's money and you have to increase taxes on the recipients of the benefits, they recognize that it is no longer free and the allure of the benefit declines. This doesn't just happen in the U.S. either. This political phenomenon has occurred throughout the developed world as politicians give people benefits only to find raising taxes to cover those benefits politically unachievable. Of course, cutting the benefits is also politically difficult once people have gotten used to having them.

It doesn't matter whether it's in Athens, Tokyo, Paris or Chicago, the pattern continues and the deficits and debts pile up. Strong economic growth could help pay for some of this. But, the low fertility rates discussed above, coupled with the economic dampening effect of increased taxes and other government policies, have dramatically reduced growth in developed economies over the last 40 years.

So, what have governments done? Print money. All of them. The U.K. was the first to begin an open-ended process of flooding liquidity into its banking system to keep it afloat. Then, the European Union followed in an attempt to prop up the failing economies of southern Europe. Japan has done this for some time. And now, the U.S., with so-called QE (Quantitative Easing) forever, has joined the party.

The problem is that printing money does not fix the fundamental problem. It only covers it up. The problem ultimately has to be fixed by increasing revenue through economic growth and adjusting the benefits paid to the corresponding level of tax collected. If you continue printing more money without any wealth creation, the value of that money in tangible terms must decline. Inflation and stagnation or economic decline will consequently result.

This has to stop or the fallout could be catastrophic. We must enact policies that generate real growth, stop printing money and align benefit programs with the taxes coming in to pay for them. And we, the United States of America, must lead this effort and be the adults in the room. The Europeans have huge structural problems with the euro and massively over-generous public benefits. The Japanese (and actually the Chinese, as well) have a demographic problem. The developing world (China, Brazil, India, etc.) are too small economically to lift up the rest of the world, even if their growth continues (although their growth is actually slowing, in part because of the fact that ours is). But, America has no impediments to enacting the right policies - no impediments, that is, except for misguided and rigidly ideological politicians, including the current president.

We can lead. We have to lead. The United States and the United Kingdom saved the world from imperialism, Nazism and communism with our military might and acumen in the last century. Now, in a new century, we must do it again with our economic and political might and acumen.

And, in doing so, we will save ourselves as well.